



**Plante & Moran, PLLC**

Suite 120  
511 Renaissance Drive  
St. Joseph, MI 49085  
Tel: 269.982.8000  
Fax: 269.982.2800  
plantemoran.com

Members of the Township Board  
Charter Township of Benton, Michigan  
1725 Territorial Road  
Benton Harbor, Michigan 49022

We recently completed the audit of the financial statements of Charter Township of Benton, Michigan for the year ended December 31, 2003. We would like to compliment the staff and management for the overall positive condition of the financial records of the Township, as well as the related supporting documentation. In connection with our audit, we offer the following comments and recommendations:

## **FINANCIAL OVERVIEW**

During the year ended December 31, 2003, the Township's General Fund continued to absorb the impact of the deficit Police and Fire Funds. The General Fund's expenditures exceeded revenues by approximately \$1,047,000. In addition, the General Fund was required to transfer approximately \$1,105,000 to the Police and Fire Funds during the fiscal year. This, along with a transfer of approximately \$290,000 to the Debt Service Fund caused the General Fund to experience a \$2,442,000 decrease in fund balance for the year. The Police Fund experienced a \$27,000 decrease in fund balance; however, the loss was minimized due to operating transfers of \$678,000 from the General Fund. In addition, the Fire Fund experienced an increase in fund balance of approximately \$23,500 after a General Fund operating transfer of \$427,000. Fund balance in the police fund decreased to approximately \$13,000. In the fire fund, fund balance increased to approximately \$36,000. The passage of the police and fire millages should improve the public safety funds' performance in 2004. Additionally, the receipt of the proceeds from the sale of Woodridge Place lots should benefit the General Fund in 2004. However, with the future of state shared revenue still uncertain, we recommend the Board review the budgets for these funds on a continual basis.

## **STATE SHARED REVENUE AND BUDGETING**

Municipalities in Michigan have and will continue to feel the effects of the slow down in the State's economy. State shared revenue accounted for approximately 54% of the Township's total General Fund revenue for the calendar year ended December 31, 2003. Slower than anticipated growth in the State's sales tax collections (the sole source of revenue sharing payments to local units of government) and the State's budget problems which have resulted in additional appropriation reductions.

While it is generally acknowledged that the State's budget woes will continue for several more years, we urge the Township to be conservative in its estimation of state shared revenue as this line item in the State's budget remains vulnerable.

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## **NEW REPORTING MODEL - GASB 34**

Implementation of this new reporting model will begin shortly after completion of the December 31, 2003 audit. The Township's 2004 financial statements will be issued in compliance with GASB 34.

## **BANK ACCOUNTS**

The Township Police Department continues to open and close its own bank account as needed for donations. The account has not been recorded on the Township's financial records. This account has been mainly used to raise funds (donations, fund raisers, etc.) for specific projects. We recommend that the Township include this account and its activities within the Township's records. Because the Police Department is under Township control and raises money in the name of the Township, the State requires that all financial matters of the department be included within the general purpose financial statements.

## **PENSION COSTS**

The Township's share of net pension assets exceeded the net pension liability as of the date of the most recent actuary report (December 31, 2002). As a result, the actuarially determined contribution rate remains at \$0. However, as a result of recent investment market declines, the Township's future pension costs may increase, and this should be considered in the Township's long-term planning process.

## **CREDIT CARDS**

Township police officers are authorized to use a Township credit card for gas purchases. In addition, the Township holds a credit card with Lowe's. Currently, there is no board approved credit card policy in place, which is required by the State of Michigan. We recommend the Township approve a policy, which specifically outline the guidelines for use. We would be happy to provide a listing of specific items that the Township should include in the policy to comply with the State's requirements.

## **BOARD APPROVAL OF MAJOR ACQUISITIONS**

Township policy requires that any acquisition over \$25,000 have board approval. During our audit, we were unable to find evidence documenting the approval of one acquisition above this threshold. We recommend that the board maintain close oversight of Township expenditures and projects.

## **BOARD APPROVAL OF RETIREMENT BENEFITS**

A Township employee retired during 2003. However, the retirement committee did not meet to approve the retirement benefits. Township policy requires that the retirement committee meet to approve retirement benefit payments. We could find no documentation to support the retirement committee's approval and recommend policy compliance in the future.

## **QUARTERLY FINANCIAL REPORTS AND ANNUAL INVESTMENT REPORTS**

During the course of our audit testing, we noted that quarterly reports are not being provided to the Board. All Charter Townships are required to have quarterly reports provided to the Board, with budget to actual comparisons of performance. Similarly, we noted that the Board was not receiving an annual investment report, which is required under PA 196 of 1997. This type of information can be extremely beneficial for making future purchase, budgeting and investment decisions.

## **COMPENSATED ABSENCE ACCRUALS**

We continue to note two areas of potential concern related to compensated absences. It appears that the Township has a few employees that are nearing possible retirement. Over the course of their employment, these employees have banked a large amount of sick and vacation time. Upon retirement, the Township will have to make a significant payout to these individuals which could have a significant impact on cash flow. We recommend the Township review this situation and consider establishing arrangements to begin making payouts to these individuals before retirement. Also, the Township's current policy allows employees to accumulate large balances of vacation time. Because many employees "save" this accumulation and receive large cash payouts at retirement or termination, we have seen several governmental units revise their policies and greatly limit accumulations on a prospective basis. This will lessen the cash flow impact when a separation from service payment is required, as noted above, and simplify record keeping to some extent.

## **COMPENSATED ABSENCES APPROVAL AND TRACKING**

During our testing of compensated absences, we noted that the police department does not follow the Township policy of requiring a signed time-off request for compensated absences. In addition, we also noted one instance where a sick day was not subtracted from an employee's accumulated balance. The employee subsequently left Township employment during the year and was paid the unused accumulation. Therefore, the Township most likely paid this employee for too many sick days. We recommend that the Township implement uniform compliance with the Township's compensated absence policy.

## **ELECTRONIC TRANSFERS**

There was a new bill passed and signed on December 31, 2002 (PA 738) that requires all local units of government to approve a resolution authorizing payments of "automated clearing house (ACH) transactions." Beginning immediately, a local unit's governing body must adopt a policy on ACH arrangement that includes all of the following:

- Designation of an individual as the party responsible for payment approval, accounting, reporting and compliance with the ACH policy;
- A statement that this individual is required to submit documentation as follows: describe the goods or services purchased, the cost, date of payment, and the department benefiting from the purchase;
- A system of internal controls to monitor the use of ACH transactions; and
- The approval of ACH invoices before payment.

We would like to thank and compliment the township staff on their preparation for this year's audit. We also appreciate the courtesy and cooperation extended to us by you and members of your organization during the audit. We appreciate the opportunity to present these recommendations for your consideration and will be pleased to discuss them further at your convenience.

*Plante & Moran, PLLC*

April 27, 2004